

News Release

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GOVERNMENT ANNOUNCES PLANNING SURPLUSES

Finance Minister Paul Martin today announced that the Government of Canada, based on private sector forecasts, is projecting planning surpluses for the foreseeable future and intends to set out a multi-year plan for tax cuts in the 2000 budget.

"For this government, the need for tax reduction is not a matter for debate," Minister Martin said. "We must and we will cut taxes more."

The Minister also confirmed that the Canada Employment Insurance Commission has set a new premium rate of \$2.40 for the year 2000, down from \$2.55, and that the Government has accepted that rate. This is the sixth year in a row that the rate has been lowered.

This means that employees and employers will save \$1.2 billion next year – bringing total annual savings, relative to the rate of 1994, to \$5.2 billion.

The Minister made the announcement when he presented the Government's annual Economic and Fiscal Update to the House of Commons Standing Committee on Finance, which is holding consultations leading to the 2000 budget. The update outlines economic and fiscal developments since the last budget and highlights key areas where the Government intends to focus to meet its goal of building a strong economy and a secure society.

The update follows the release last month by Minister Martin of the sixth *Annual Financial Report of the Government of Canada*, which showed that for the first time in almost 50 years, since 1951-52, Canada recorded back-to-back surpluses:

- \$3.5 billion in 1997-98; and
- \$2.9 billion in 1998-99.

"Clearly, Canada has entered a new era, one of financial surplus," the Minister said. "And clearly, a great debate is now underway as to how these surpluses should be used."



The Minister explained that his department has conducted an unprecedented process of consultation with the chief economists of Canada's major chartered banks and four leading forecasting firms to agree on a set of economic assumptions, which the forecasters would then use to develop projections of the surplus. The economists also recommended continuing to apply the \$3-billion Contingency Reserve each year and an extra degree of prudence.

Taking the average private sector forecast of the surplus – and subtracting the Contingency Reserve and the extra prudence, starting at \$1 billion in the first year and rising to \$4 billion in the fifth year – the estimates of the planning surplus over the next five years are:

- 2000-01: \$5.5 billion;
- 2001-02: \$8.5 billion;
- 2002-03: \$12.5 billion;
- 2003-04: \$17.5 billion; and
- 2004-05: \$23 billion.

Minister Martin made clear these surpluses are only projections. They will be useful for the purposes of public debate and planning.

However, in recognition of the growing uncertainties associated with the longer time horizon and the need to preserve flexibility, the Government will continue to make budget decisions on a rolling two-year time horizon.

The Minister said that the Government's economic framework focuses on four crucial areas:

- providing sound financial management;
- reducing taxes;
- making the economy more competitive by making it more innovative; and
- providing security and opportunity for Canadians by investing in their skills, their knowledge and their capacity to learn.

"None of these elements alone can give us the strong economy and the secure society we want. But together, they provide the balance for a forward-looking plan to make Canada the place to be in the 21st century," the Minister said.

He noted that since 1997 the Government has reduced the income tax burden of Canadians by some 10 per cent.

With cutting taxes central to the Government's agenda, the Minister said that the approach that was used for deficit reduction will be used for tax reduction. "We will set out objectives and we will achieve them as quickly as possible. That is how we eliminated the deficit. That is how we will continue to reduce taxes."

Minister Martin announced that the 2000 budget will spell out a multi-year plan to further cut taxes. He said the new plan will be guided by the same clear principles that have been central to the Government's tax reduction agenda to date:

- tax reductions must be fair; they must first benefit those who need it most: middle- and low-income Canadians, especially families with children;
- broad-based tax relief should focus first on personal income taxes;
- the business tax system must be internationally competitive; and
- broad-based tax relief should not be funded with borrowed money.

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